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SECURING BOSTON'S FINANCIAL HEALTH

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EXECUTIVE SUMMARY
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Boston Municipal Research Bureau

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EXECUTIVE SUMMARY

I. Introduction

The next Mayor of Boston will assume office at a time when the City faces one of its most serious financial challenges in recent times. At stake is the City's ability to sustain the delivery of basic public services to those who live and work in Boston. The City has emerged from a four year period of declining revenue growth and revenue decreases, which has caused actual spending to increase by only 3% while inflation grew by 19%. That required cuts in spending, which were accomplished through improved management efficiencies and service reductions. Drawing down reserves and using non-recurring revenues helped mitigate the cuts but those sources are far less available now. Boston has managed the challenges of a prolonged economic downturn and state aid cutbacks to end each of the last eight years with operating surpluses. Today, the City is in a fiscal straightjacket with its two largest revenue sources, representing 72% of total operating revenues, restricted by legal limits or change in state policy. The inherent limitations of Boston's revenue structure are not sufficient to maintain the growth of expenditures facing the City in the foreseeable future. Boston is at a crossroad. Its problems are manageable but, fundamental changes are required now.

Looking ahead, the City of Boston faces a structural revenue gap of between \$20 to \$25 million in fiscal 1994, based on the Bureau's analysis of the City's service needs and its available revenues. The structural gap is projected to increase to between \$25 to \$30 million in fiscal 1995. Despite the projection, the City's actual fiscal 1994 budget is balanced and expenditures are expected, with prudent management, to stay within existing revenues. The gap estimate assumes a reasonable restoration of service cuts not in the budget and allows for salary increases for employees, consistent with contracts already negotiated, without requiring departments to absorb any of the additional costs. The problem of the gap cannot be solved by the City alone. Boston must continue to provide basic services through more efficient management and by increasing its own source revenues. State action will also be necessary to help insure that the Commonwealth's capitol city will be able to provide services adequately for all those who live, work and visit in Boston.

A separate report on the financial operation of Boston City Hospital will be released by the Bureau shortly. While not summarized in this report, the findings were incorporated into the Bureau's budget projections for fiscal 1994 and fiscal 1995.

II. Boston's Fiscal History

The story of Boston's financial situation, as told by an analysis of its revenues and expenditures, is one of financial management challenges during times of growth and during times of economic stress. It is also a story about the inherent limitations of Boston's revenue structure with its growing reliance on statutorily-restricted property taxes and concern about spending pressure and deferred costs that will make it more difficult for the City to balance its budget in the future. The story also contains chapters about missed opportunities to improve service delivery through changes in employee contracts and over-reliance on non-recurring revenues. A look at Boston's financial past from fiscal 1984 through fiscal 1993 will help to understand Boston's financial future.

A. Revenue Trends

- Over the last ten years through fiscal 1993, Boston's general fund revenues have increased by 51% to \$1.324 billion, which in constant dollars translates into an increase of 4%.
- From fiscal 1989 to fiscal 1993, the City's operating revenues increased by only 3%, which represented a decrease of 14% in constant dollars. In dollar terms, since fiscal 1989, Boston's revenues have increased by \$36 million, which equates to a decrease of \$142 million in constant dollars.
- Boston relies heavily on the property tax and state aid, which together represented

72% of total general fund revenues in fiscal 1993. This heavy reliance points to the lack of revenue diversity for the City.

- The property tax levy, which totaled \$591 million in fiscal 1993, has been the revenue workhorse for Boston. The tax levy has provided a larger share of total general fund revenues, increasing to 45% in fiscal 1993, up from 36% in fiscal 1989.
- State aid for Boston, which totaled \$357 million in fiscal 1993, has been cut by \$73 million or 17% since fiscal 1989, which in constant dollars represented a cut of \$106 million or 30%.

B. Expenditure Trends

- City operating expenditures increased by 44% to \$1.324 billion over the past ten years and kept pace with inflation, which increased by 45% during that time. In constant dollars, city spending increased by only \$4.4 million or 0.5%.
- In the past four years through fiscal 1993, Boston's general fund expenditures increased by \$44 million or 3%, which translated into an average annual increase of 0.8%. Real cuts in departmental services occurred as budgets were required to absorb the inflationary growth of 19% during this time. In constant dollars, operating expenditures from fiscal 1989 through fiscal 1993, decreased by \$135 million or 13%.
- The Flynn Administration's response to this situation was to prioritize spending in departments of Police, Fire, School, Hospital and Sheriff. Consequently, the remaining city departments, which represented only 14% of total expenditures, were required to cut spending by 17% from fiscal 1989 through fiscal 1993. Departments in this group include Parks (-31%), Assessing (-29%) and Public Facilities (-22%).

C. State vs. Local Aid Spending

- From fiscal 1984 to fiscal 1989, state aid increased by an average of \$28 million each year. From fiscal 1989 to fiscal 1993, state aid decreased by an average of \$18 million each year. In fiscal 1994, Boston's state aid increased by \$8.5 million.
- State aid to municipalities, from fiscal 1988 to fiscal 1993, was cut disproportionately in relation to other major state budget accounts as the Commonwealth cut spending to stabilize its own financial position.
- During that time, state spending increased by \$3.2 billion or 28%, while support for local government decreased by \$345 million or 12%. In the same period, spending for Medicaid increased by 88%, for MBTA by 87% and for debt service by 109%.

D. Boston's Work Force Changes

- Boston's city-funded work force as of January, 1993, was 18,042, which represented a decrease of 569 positions or 3% since January, 1984 and a drop of 1,902 positions or 10% since January, 1989.
- The City's total departmental payroll actually decreased by 2,373 positions or 12% if the increases in the Suffolk County work force are excluded.

- The number of employees paid from city funds is an important indicator of the City's financial condition. The cost of employee salaries and overtime represented 62% of total departmental spending in fiscal 1993.
- Departments registering the largest work force decreases over the last four years include Health and Hospitals (-823), School (-762) and Public Works (-143).

III. Assessment/Property Tax

The property tax is Boston's largest revenue source, which in fiscal 1993 represented 45% of total general fund revenues. The tax levy provides a stable base of revenue as it has been less subject to changes in the economy than other taxes. However, the amount of revenue Boston is able to generate from the property tax is limited in law by Proposition 2½ and in practice by the extent to which it becomes a disincentive for investment.

A. *Property Tax Levy*

- Boston's property tax levy (net of overlay reserve) was \$591 million in fiscal 1993, an increase of 89% over the last 10 years. In constant dollars, the levy increased by 30% during this time.
- The levy increased due to the normal 2.5% increase over the prior year's levy limit and because of significant new growth, which accounted for over 60% of the levy increase since fiscal 1984. The slowdown of the economy will limit the levy increase from new growth in the foreseeable future.
- The City faces a potential abatement problem in the next few years as assessments in fiscal 1990 and fiscal 1991 were not reduced, following the drop in market values.

B. *Classification of Property*

- The impact of classification in Boston has been to shift the property tax burden to business property. The value of business property as a percent of total has declined from 54% to 40% over ten years, but its share of the levy has remained the same.
- In fiscal 1993, total taxable property in the City was valued at \$27 billion. Business property represented 40% of the value but paid 70% of the tax levy. Conversely, residential property represented 60% of value but paid 30% of the levy.

C. *Property Tax As Disincentive*

- Boston's business tax rate of \$39.99 in fiscal 1993 increased by 78% since fiscal 1989, while the residential rate of \$12.88 increased by 62%. Property taxes for a business property will be over three times higher than for a residential property of the same value.
- The effective tax rate for business in fiscal 1993 was 4.0% and is expected to increase to 4.2% this year. The residential effective tax rate in fiscal 1993 was 1.1%. The effective tax rate is the proportion of taxes paid to assessed value.
- The business effective tax rate of 4.0% exceeded the rate in all local competing communities, creating a disincentive for economic development in Boston. The

fiscal 1993 business effective tax rate was 2.7% in Framingham, 2.4% in Malden and 2.9% in Quincy.

D. Reaching the Levy Ceiling

- In fiscal 1992 and fiscal 1993, Boston's taxable assessed value decreased by \$9 billion or 27%. Due to the reduction of value and increase in the levy, Boston's overall effective tax rate in fiscal 1993 was 2.3% and is expected to reach 2.4% in fiscal 1994.
- In fiscal 1994, the City's taxable value will likely decrease by 2% based on extensive analysis of changes in median sale prices by class over several years, changes in leases and current assessment to sales ratios.
- In fiscal 1995, whether the City's taxable value will reach or exceed the levy ceiling is too close to call despite the extensive analysis noted above. The City's taxable value in fiscal 1995 is projected to increase slightly above 2%, enabling the City's levy to just miss the levy ceiling. Should the value not increase or further decline and the levy hit or exceed the levy ceiling, the City would lose approximately \$10 million or more in tax revenue, thereby widening the gap by that amount.
- A Proposition 2½ override is not a viable option for Boston because it will push the City's levy closer to or cause it to surpass the levy ceiling limit. The City's levy is already hovering close to this limit. The City could seek a debt exclusion to temporarily increase the levy above the ceiling, but that would require voter approval and it would raise further Boston's dependence on the property tax.

E. Tax-Exempt Property

- Tax-exempt property in Boston represents almost 50% of the City's land area and 33% of the total assessed value in the City. Public exempt property, such as land owned by the City of Boston, the Commonwealth and its authorities, represent 77% of the total exempt land area. The remaining 23% is made up of land owned by private institutions, such as hospitals, universities and religious organizations.
- Most tax-exempt institutions provide both monetary and in-kind services to the City and its residents. In fiscal 1993, direct payments to the City from tax-exempt organizations are expected to reach over \$19 million. Additionally, some tax-exempt organizations provide scholarships, health care programs, police and street sweeping functions for residents.

IV. Debt Management

The City's management of its debt structure is pivotal to the overall financial health of the City. The City must and has worked to ensure that its debt plan is carried out in a way that can be accommodated reasonably within projected operating budgets, yet still meet the need for improvements both to city facilities and infrastructure.

- Overall the City has been prudent in managing the amount, timing and structure of debt issuance. Debt service as a percent of the City's total annual budget has decreased to 6%, below the industry and city guideline of 10%.

- Average life of the City's debt, which reflects how rapidly the principal of an issue is expected to be paid, has increased slightly because of greater use of level debt service instead of declining debt service and the use of term bonds instead of serial bonds.
- The City's overall debt per capita of \$1,218 is slightly over Moody's median of \$1,176 for cities with populations of 500,000 and over. The City's debt as a percent of full value of 2.2% is below Moody's median of 3.1%.

V. Boston's Future

Boston faces one of its most fiscally challenging times in fiscal 1994 and 1995, with limitations on key revenue sources, pressures for increased spending for basic city services and far less reserves available. In fiscal 1993, the Bureau estimates that the City will end the year with a small surplus of approximately \$2 million. In fiscal 1994, the City's budget is balanced and expenditures are expected, with prudent management, to stay within existing revenues. However, if a reasonable restoration of services is provided along with funds for salary increases consistent with contracts already negotiated, the City would face a structural revenue gap in fiscal 1994 and a larger gap in fiscal 1995. The spending estimates acknowledge that spending levels have been reduced in past years and that the reductions which have resulted in improved operational efficiencies should be maintained. The estimates for this section are based on a detailed analysis of the City's expenditure and revenue accounts, a review of historical data, extensive discussions with city and state officials and consultations with various experts in the private sector.

A. The Outlook for Fiscal 1994

- The gap between revenues and expenditures in fiscal 1994 is estimated by the Bureau to be in the range of \$20 to \$25 million, based on the current system of delivering services and no changes in the existing revenue structure.
- The Bureau's fiscal 1994 projections use the City's approved budget as a base and makes adjustments on the expenditures side for an increase in salaries for all employees, 50 additional police for the year, 40 additional firefighters to be hired in the last two months of the fiscal year and an increase in non-personnel expenditures.
- On the revenue side, the Bureau adjusted several accounts and expects general fund revenues to be \$3 to \$5 million higher than the city budget's estimate.

B. The Outlook for Fiscal 1995

- Fiscal 1995, is projected to have a \$25 million to \$30 million gap, if the City's operational and revenue structure does not change.
- Fiscal 1995 spending assumes an increase in salaries, additional police and fire personnel, police equipment and a growth in other expenditures to keep service delivery at appropriate levels.
- The Bureau's fiscal 1995 revenue projections assume a 2.5% increase in the majority of the revenue accounts, with adjustments made in specific areas based on an analysis of historical revenue collections and financial simulation models.
- Revenues in fiscal 1995, also assume the City's property tax levy will not reach the levy ceiling. However, it is important to note that if the levy ceiling is reached or exceeded, the gap in fiscal 1995 could be increased by \$10 million or more.

VI. Recommendations

The estimated structural gap facing the City in fiscal 1994 represents approximately 1.5% of the City's operational budget. Although the percentage is relatively small, enabling Boston to sustain the delivery of basic public services will require action by both the City and the state. The City alone will not be able to solve this problem, since over the past four years it has absorbed inflationary growth of 19% with only a 3% increase in spending and far less reserves and non-recurring revenues are available. Pressures on spending, deferred costs and salary increases will cause the gap to increase in fiscal 1995 and subsequent years with no change in the revenue structure. The state must play a role in helping address the fiscal problems of its capital city. The following recommendations identify opportunities for Boston to reduce the gap by controlling its spending through more productive use of its available resources and increasing its own revenues. Suggestions for state action are also included. These recommendations are the catalyst for real change and should serve as a blueprint for the next Mayor and City Council.

A. *WHAT BOSTON CAN DO.....*

The 1990s will be a period of limited revenue growth for Boston and one in which the public expects basic city services to be provided effectively at a reasonable cost. The economic reality of this decade has pushed the concepts of "reinventing government" and "entrepreneurial government" as approaches to delivering services more efficiently and cost-effectively. The recommendations offered represent fundamental changes in how city services are provided and managed, which if fully implemented would allow a more efficient delivery of services at a savings to the taxpayer. The personal commitment of the Mayor is essential to the implementation of these recommendations. More specific recommendations will not be implemented successfully and will represent "tinkering at the edges" unless the Mayor commits to these major changes first. These are practical recommendations that are being implemented with positive results in other major cities in the country. The Mayor should adopt the following recommendations:

- **HUMAN RESOURCE MANAGEMENT** ~ ~ Efficient personnel management is critical to Boston. Reflective of the labor intensity of government services, the cost of employee salaries and overtime represented 62% of total departmental spending in fiscal 1993. The City should develop a performance-based personnel system that ties performance measures to wage increases and promotions. Changes in state policy regarding Civil Service will enable Boston to assume more responsibility for creating innovative, centralized hiring and promotion policies that are consistently and fairly applied and meet affirmative action needs. The integrated Personnel/Payroll system should be upgraded to include all personnel functions, including the managing attendance program. Job descriptions and job classifications need to be brought up-to-date to insure equitable and professional management of the City's human resource operation. A staff development and training component should be established as part of the Personnel Division.
- **COLLECTIVE BARGAINING CONTRACTS** ~ ~ Changes in employee work rules and the introduction of productivity measures in collective bargaining agreements are essential to the City's effort to deliver services more efficiently and effectively. The Boston Water and Sewer Commission has already negotiated merit pay into three of its four employee contracts, but in the City only one bargaining unit in the Public Facilities Department has such a provision. A performance evaluation system tied to goals and objectives should be included in contracts to determine merit pay. Work rules that inhibit a department's ability to deliver services efficiently must be changed. City employees should understand that they are expected by the public to be a part of the solution by supporting changes that will improve how services are provided as part of a reasonable base wage increase.

Supervisors should be trained to effectively manage personnel within the rules of the union contracts, applying a system of progressive discipline. The Mayor should establish a commission to review all union contracts and report back with recommendations to improve service delivery and productivity in a cost-effective manner.

- **BUSINESS TASK FORCE ON MANAGEMENT AND PRODUCTIVITY** ~ ~ The Mayor should appoint a task force of business leaders to thoroughly review city operations and recommend steps to strengthen effective management and improve the productivity of the City's delivery of services. While this approach has been used by the Commonwealth and other major cities, no such commission has been created by a Mayor of Boston for over 20 years. As part of its charge, this group should determine whether each service should continue to be provided and if so how competition could be injected into the provision of the service. This approach has been used successfully by Mayor Edward Rendell of Philadelphia and Mayor Stephen Goldsmith of Indianapolis. One issue that this group should review is how the City can improve its productivity through greater utilization of technology.
- **COMPETITION IN SERVICE DELIVERY** ~ ~ To improve service efficiency and control costs, competition should be introduced in all areas of government. Services that lend themselves to competition or "outsourcing" should be identified and bids sent to legitimate sources, both city employees and private companies, with the lowest bid selected. Where appropriate, the City should look at areas where it can work more as a skilled purchasing manager, than a service provider. Productivity gains realized from these "city-competitive" contracts should be shared with the employees in short-term agreements. Several city services are currently contracted out, most notably the collection and disposal of solid waste. Some obvious areas that should be considered by the Mayor and City Council are: (1) public works functions such as the operation and maintenance of the City's three drawbridges, (2) custodial services in the School Department and (3) management information services throughout the City.
- **PUBLIC SAFETY MANAGEMENT STUDIES** ~ ~ The Mayor should contract with nationally recognized professional organizations to undertake, in separate studies, evaluations of the management and operations of both the Police and Fire Departments in Boston. The current budget of these two departments total \$212 million. The purpose of these studies would be to recommend greater efficiencies in each department's management, organization, personnel and work practices. The last major review of the Fire Department was the Gage Babcock report in 1969 and the last such report of the Police Department was the Quinn Tamm report in 1962. The St. Clair report in 1992 focused on management and supervisory practices and not cost-saving operational efficiencies.
- **CONSOLIDATION OF DEPARTMENTS** ~ ~ Improved service delivery and cost efficiency is possible through the consolidation of departments. The Mayor should study the feasibility of consolidating the following:
 - Public Facilities WITH Real Property
 - Consumer Affairs and Licensing WITH Boards and Commissions
 - Minority and Women in Business WITH Auditing
 - Neighborhood Services WITH Mayors Office WITH Safe Neighborhoods

- **TRASH FEE ~ ~** The City should pursue the implementation of a residential trash fee to cover the escalating cost of trash removal and disposal. The Public Works Department is responsible only for residential solid waste and the current budget is \$24 million. A trash fee for residents would range from \$7 to \$8 per month for each household based on covering 50% of the cost of removal and disposal in Boston or about \$12 million in fiscal 1994. The current funding system is inequitable since commercial and industrial properties pay 70% of the tax levy but receive no rubbish service. A trash fee would insure a fairer distribution of costs to those who benefit from the service.
- **DEPARTMENTAL GOALS and PERFORMANCE MEASURES ~ ~** To improve the City's delivery of services to the "customers," the Mayor should make a high priority the strengthening of service measures to evaluate the performance delivered by each department and hold managers accountable for meeting service standards. Boston began the process of developing departmental goals and objectives and establishing performance measures in 1986. However, the measures have not evolved satisfactorily and now other cities have surpassed Boston in measuring service performance. The departmental measures should change from focusing on outputs (activities) to outcomes (results) and add qualitative measures. Improved outcome measures should be tied to strategic plans and resident surveys should become part of the evaluation process.
- **FEES, FINES AND CHARGES ~ ~** The City should undertake a comprehensive review of its fees and fines structure to ensure that these charges reflect the cost of delivering services and that the fines preserve their deterrent effect. The last review of the City's fees and fines occurred in fiscal 1990.
- **HEALTH INSURANCE ~ ~** The largest single budget increase over the last ten years has been in employee health insurance, growing by 173%, while inflation increased by 45%. The City should expand current cost saving steps as well as pursue additional savings through changes in contract negotiations. The cost of city employee health insurance, excluding charges for hospital and school employees, was \$70 million in fiscal 1993. Real savings in this budget item will require changes in the coverage and the employees' share of the premiums, which are items that have been negotiated in collective bargaining contracts.
- **FORECLOSED PROPERTY ~ ~** The City should develop a more effective process for disposing of foreclosed properties as recommended by the report of the Boston Finance Commission on the tax foreclosure process in Boston. The City's current process of disposing of foreclosed properties results in lower revenues and increased liabilities for the City.
- **EMPLOYEE INVOLVEMENT ~ ~** One of the keys to successful implementation of the recommendations cited is employee involvement. City employees should be challenged and rewarded for improving the efficiency of departmental operations. They must facilitate a new way of operating Boston's city government. Without meaningful involvement by city employees, most of the recommendations will not succeed.

B. WHAT THE STATE CAN DO.....

Boston's financial problem cannot be solved in a vacuum. As the City moves to improve its own operations, state actions will be necessary to insure that its capital city will be able to secure its own financial health. The state should consider the following actions:

- **COUNTY CORRECTIONS** ~ ~ The state should assume full responsibility for county correctional services. Bringing judicial and correctional services together at the same level of government would allow for greater operational efficiencies. For Boston, this would mean a savings of \$9 million in fiscal 1994. Complete assumption of county correctional services throughout Massachusetts would cost the state \$27 million. The Comptroller of the Commonwealth recently indicated that the state ended fiscal 1993 with a surplus of \$67.5 million, of which \$49.5 million is unrestricted. While some of these funds are no doubt committed, the state should use this source to assume responsibility for correctional services in the second half of this fiscal year.

Until the state assumes full responsibility, Boston should not pay a disproportionate share of county correctional costs than other communities pay. Currently, Boston pays for approximately 25% of correctional costs, while the average county assessment for this purpose throughout the state is 12%.

- **REGIONALIZATION OF SERVICE** ~ ~ The state should facilitate efforts and provide financial incentives to support the regionalization of services between major cities and surrounding communities. Principles of economy of scale indicate that regionalization would be beneficial to all communities involved in such arrangements. Boston could provide planning, development, treasury, assessing, police and fire services to neighboring communities for a profit and still charge less than the communities now pay for these services. The Boston Water and Sewer Commission could provide its services on a regional basis.
- **LEASEHOLD AGREEMENTS** ~ ~ The Governor and Legislature should approve legislation that would allow municipalities to tax leasehold property on state authority land. Commercial interests at Massport that provide services for air transportation purposes should be exempt from taxation. Such legislation would generate \$8 million annually for Boston. Over 40% of all exempt land in Boston is owned by the Commonwealth, of which 25% is owned by its authorities. The ability to tax commercial interests on authority land is a reasonable approach that will not require any transfer of payment from the state or its authorities. The alternative would be for the City to push for a larger payment directly from the state for compensation for providing services to state-owned property, a policy adopted by several other states.
- **STATE AND CITY FISCAL RELATIONSHIP** ~ ~ The state's fiscal relationship with Boston and all municipalities in the Commonwealth must be reexamined. The last comprehensive review of this relationship occurred in 1990, with the Governor's Task Force On Local Finances, chaired by John Hamill. The goal of the Task Force was to recommend a structure for financing local government. Since the report was released, the state has reduced local government support and has shifted the focus of its additional local aid distribution to public education, which has produced significant changes in the amount of discretionary local aid for municipalities. Directing additional local aid for school purposes has put more of a burden on cities and towns to fund general government services. In addition, the

state, starting in fiscal 1994, has shifted revenues to provide financial relief to water and sewer ratepayers. These funds might otherwise have been available for discretionary use by municipalities. For these reason, several of the findings and recommendations made in the Task Force report are still valid today and should be reconsidered. They are as follows:

(1) **Optional special excise taxes** ~ Additional local option taxes should be authorized by the Legislature. Special excises would have limited application among the state's cities and towns but would be of value to Boston and add flexibility to its revenue base. Such excises could include taxes on meals, admissions, parking or an additional rate of tax on existing taxes such as the hotel-motel excise tax. Broad-based local option taxes (sales, income or payroll) are not appropriate revenue sources for Massachusetts cities and towns, would create problems for Boston and should not be approved for local use.

(2) **Sharing of resources** between the state and municipalities ~ A fair and equitable distribution of state resources should be applied to local aid. Boston makes a significant contribution to the overall tax revenue of the state and should share in an equitable distribution of state resources. The state has moved away from its policy of distributing local aid increases according to a needs-based formula with special consideration for Boston. In the four years prior to fiscal 1990, Boston's discretionary state aid increased by an average of \$26 million each year. In fiscal 1994, however, Boston's local aid increased by only \$8.5 million.

This year for the first time in five years, the state provided additional municipal stabilization aid to cities and towns for discretionary use. The \$20 million was allocated by the lottery formula and Boston received \$1.9 million. A more equitable formula should be utilized because the lottery formula uses state determined equalized valuations to define relative local resources. This measure is less appropriate since Proposition 2½ limits full access to a community's full tax base. Prior to fiscal 1990, Boston generally received 17% of local aid for all municipalities, but its share of this year's municipal stabilization aid using the lottery formula is 9%.

(3) **Modification of Proposition 2½** ~ The Bureau has expressed concern about the City's inordinate reliance on the property tax and concern about the impact of its high effective business tax rate on investment in Boston. For that reason, our recommendations for state action have focused on assumption of county services, excise taxes and authority to tax commercial property on state authority land. If these recommendations are not implemented, the Bureau would recommend that the annual limit on property taxes be tied to a measurable index so that this major source of income will respond to changes in price or income. The Task Force suggested that the appropriate measure would be the U.S. Department of Commerce index that measures the prices state and local governments pay for goods and services and that the annual limit should be based on the average of the three prior years. That limit would have allowed Boston's fiscal 1993 tax levy to increase by an additional \$5 million. Exempting the overlay reserve for abatements from the levy limit is a one-time benefit and is far less preferable than tying the annual limit to an index which provides an annual benefit.

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